MINUTES OF A SPECIAL MEETING
OF THE
ILLINOIS STUDENT ASSISTANCE COMMISSION

September 8, 2010

Videoconference Locations

James R. Thompson Center **100 W. Randolph St.** **Room 15-200** **Chicago, Illinois**	**Illinois State Capitol** **Room 214** **Springfield, Illinois**

COMMISSIONERS PRESENT: Donald J. McNeil, Chair
Dr. Linda Andre
Sharon Alpi
Sean Dauber
Dr. Mary Ann Louderback
Johnathan Wilson

COMMISSIONERS ABSENT: Hugh Van Voorst

STAFF PRESENT: Andrew Davis, Executive Director
Brian Begrowicz, Deputy Chief Financial Officer
Kim Lee, General Counsel
Shoba Nandhan, Interim Chief Financial Officer
Nicholas O'Keefe, Associate General Counsel
John Sinsheimer, Chief Financial Officer
Debora Calcara, Commission Secretary

PUBLIC ATTENDANCE: Chris Coldwell, Loop Capital
William Corbin, Perkins Coie
Kamille Curylo, Kutak Rock LLP
Warren Daniels, Morgan Stanley
Alexander Rorke, Loop Capital
Roger Saylor, Scott Balice Strategies
Jerry Wallack, Kutak Rock LLP

CLOSED MINUTES

3. Resolution Authorizing the issuance of Student Loan Asset-Backed Notes, Series 2010-1 (LIBOR Floating Rate Notes) of the Illinois Student Assistance Commission and Related Matters

Chairman McNeil asked that staff and advisors to the Commission who were invited into the closed session introduce themselves.

Mr. Sinsheimer then opened the agenda item by reminding the Commission that ISAC has financed student loans in the past by the issuance of Auction Rate Certificates (ARCs) which were issued as long-term debt for the issuer and were repriced each month through the process of an auction where bondholders had the option to bid for new bonds, hold their existing bonds or sell their bonds. Unfortunately, as the financial markets collapsed in 2007 and 2008, the underwriting investment banks holding the bonds, which for ISAC the holder of the bonds was UBS, stopped bringing this instrument to market and these securities no longer went through auction. He stated that as a result, investors who thought they had a 30-day, highly liquid, AAA-rated security ended up with a security that had an indefinite life and an interest rate capped by the terms and conditions of the indenture.

Mr. Sinsheimer stated that as a result of a series of investigations, the Attorney General of New York led the actions and sued all the major banks, including UBS in the Spring of 2008. He indicated all the major banks reached a settlement with the Attorney General which included the commitment to buy back at par from their direct bondholders all of the outstanding ARCs.

He indicated that as a result of this settlement, UBS is in a position of owning approximately $800 million of ISAC's outstanding ARCs. He clarified that ISAC's outstanding ARCs are $884.4 million and UBS's purchase took the total to roughly $771 million. As a result of meetings with ISAC staff, UBS has indicated they have reached a point in their portfolio where they want to liquidate their position in the auction rate certificates and are now interested in serious negotiations with ISAC.

Mr. Sinsheimer indicated that there are three parts to the transaction being brought to the Commission: an agreement by UBS to sell ISAC their ARCs at 91 3/8 of par, ISAC will sign a bond purchase agreement which commits UBS to sell to ISAC in a public tender at 91 3/8, additionally, ISAC has the option to buy approximately $3.5 million of subordinated ARCs at 65 anytime until December 2011.

Mr. Sinsheimer stated that ISAC will be offering a public tender for all outstanding ARCs at a blended price of 91 3/8 for those downstream bondholders who bought our ARCs which did not go to auction.

Clarifying the third part of the transaction, Mr. Sinsheimer stated that ISAC will need to refinance the amount of student loans currently in UBS trust, which is approximately $200 million of securities, cash and investments that have been made that will be liquidated. He stated there are approximately $670 million of outstanding Illinois-based FFELP loans which will be refinanced using Floating Rate Notes (FRNs). He then explained the life expectancy of these notes and the proposed paying off of the notes.

Mr. Sinsheimer stated that Morgan Stanley is the lead underwriter in this transaction and Loop Capital Markets is co-manager.

Continuing, Mr. Sinsheimer stated that staff has also been in negotiation with Citibank, which holds approximately $65 million FFELP loans and approximately $280 million of outstanding private loans in the portfolio. He stated that this facility came due on July 27, 2010 but staff has reached an

agreement with Citibank under which they will be offering a standby provision to take no action going forward for the next year on this outstanding facility and will be co-senior on this transaction as well.

He indicated the trustee for this transaction is Wells Fargo; bond counsel is Kutak Rock; tender counsel and counsel to the underwriters is Mayer Brown; disclosure counsel is Burke Burns & Pinelli; and issuers' counsel and advisor to ISAC is Perkins Coie.

He then reiterated that there are three approvals needed today: the UBS bond purchase agreement to buy the bonds from them; the tender documents where we go public and offer to purchase all bonds, and then the FRNs. He stated that if all bonds are tendered the gain to ISAC will be approximately $60-65 million. He indicated that most of the gain will be in the form of cash and will be needed to collateralize the new trust and to recollateralize the UBS trust. He did indicate that staff has expressed to the investment banks that ISAC needs to receive a minimum of $5 -10 million of cash from the UBS trust for its own purposes which can happen if the FRN financing costs are low enough. He stated that it is ISAC's intent to use this cash for the purchase of rehabilitated loans out of its guarantor which provides a significant revenue stream to ISAC.

Mr. Sinsheimer clarified for Mr. Wilson the procedures that will be taken to comply with any oversight regulations.

Responding to Mr. Dauber, Mr. Sinsheimer stated that fees associated with this transaction will be paid through the refinancing and there will be no direct expense to ISAC. He stated that as a result of negotiations, Morgan Stanley has agreed to take on the risk of the first half a million dollars of the legal and accounting fees.

Mr. Dauber inquired as to the risk for ISAC in this transaction, which Mr. Sinsheimer indicated the major risk is that the management fee currently on the UBS trust is higher than the management fee for this transaction. Mr. Davis stated that this transaction has been structured to ensure that risk is minimal for all involved and the investment community that is currently holding the debt will have the opportunity to tender it to ISAC..

Mr. Davis stated that this transaction will pay off the State of Illinois' debt by extinguishing a dollar's worth of debt for 91 3/8th on hundreds of million of dollars and have over $50 million surplus to add to this year's income statement.

Responding to Mr. Dauber's concern if this is a good deal, Mr. Sinsheimer stated that they will receive a letter from Scott Balice Strategies that in their judgment the pricing at 91 3/8 is a reasonable price based on comparable market transactions.

Mr. Sinsheimer stated that this is 98 percent guaranteed FFELP paper and should the Department of Education offer to consolidate loans we will be paying this off early. It is staff's belief that within the next five years the Department of Education will want to do that as the FFELP paper in the industry is reduced, which he confirmed would be good for ISAC.

Responding to Ms. Alpi's inquiry as to the risk associated with the portfolio with Citibank, Mr. Davis indicated that the risk is very limited due to it being a nonrecourse facility.

Dr. Louderback inquired as to what would happen should no one buy the FRNs. Mr. Sinsheimer stated that there is a financing contingency that should for example we sell only $300 million of FRNs as opposed to the $650 million that is needed, at that point in time, the deal is void, but there is the option to continue with a partial tender but it is ISAC's option to do so. He stated that should that happen, there is an agreement with UBS that ISAC will do a pro rata reduction of purchase but are not obligated to do the pro rata and can walk away from the transaction.

Again responding to Dr. Louderback's concern as to the expediency of the transaction, Mr. Sinsheimer stated that the end of the fiscal year for UBS is September 30 and they would like to clear this significant amount off their books, but the closing can only happen after Fitch and Standard & Poor's issue their ratings on the FRN bonds. Dr. Louderback inquired if the State's low bond rating will have any affect on the ratings of these bonds. Mr. Sinsheimer and Mr. Davis indicated that the State's debt rating would not affect the FNR bonds because they are looked at as being independent, because they are nonrecourse to the State and are only recourse to the FRN trust.

Dr. Louderback expressed her concern about the date of the transaction being done just prior to the election. Mr. Sinsheimer and Mr. Davis indicated it was not intentional, but Ms. Lee stated that in the bond sale agreement the outer date to effectuate the sale to UBS is October 28 and the language is in it to put a limitation on the ability of staff.

Responding to Dr. Louderback's concern on the language giving each designated officer authorization to proceed without any further authorization or direction from the Commission to affect the tender upon the terms as prescribed in the resolution, Mr. Sinsheimer indicated that the Executive Director needs flexibility in the final structure due to the pricing variance of the FRNs in a very volatile market.

Mr. Saylor with Scott Balice, explained why the 91 3/8 is a very attractive pricing in today's market and Mr. Davis and Mr. Sinsheimer's negotiations are what brought the price down to that amount.

Dr. Louderback was concerned that should the bonds not sell then the fees would have to be paid. Mr. Davis stated that if there is no money at the closing for ISAC they will not close. Mr. Davis confirmed to Dr. Louderback that a minimum of $5 million cash will be available to ISAC at the closing. Mr. Sinsheimer stated that the balance of the funds will be used to over collateralize the trust in order to reach the AAA rating and that the dollars used to over collateralize the trust will come back to ISAC when the bonds are paid off.

Responding to Ms. Alpi's concern that the excess cash coming to ISAC as a result of this transaction might be used in ventures other than for ISAC. Mr. Sinsheimer indicated that as Director of Capital Markets for the State of Illinois he has had discussions with the Governor's Office of Management and Budget Director, David Vaught, to tell him that the excess cash is needed to buy rehabilitated loans to help Illinois students out and help the guarantor, IDAPP, which is an unappropriated fund and the State of Illinois has no vehicle for using the money. He reminded the Commission that the bulk of the funds are not available for use until the bonds are paid off in at least five years. Mr. Davis assured the Commission that as Executive Director he would fight to hold on to the funds for ISAC.

Seeing no further business to conduct in closed session, Chairman McNeil asked for a motion to return to open session. Dr. Louderback **SO MOVED** to return to open session. Mr. Dauber seconded the motion, which was approved unanimously. The Commission returned to open session at 12:05 p.m.

Respectfully submitted,

Debora A. Calcara

Debora A. Calcara
Secretary to the Commission